

AR51



Fairweather

Tip Top

Thrifty's

Braemar

Big Steel

Town and Country

Suzy Shier

Harry Rosen

Family Fair

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Annual Meeting

The Annual Shareholders Meeting will be held at 11 a.m., Thursday, May 26, 1977 in the Alberta Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario.

Highlights

Years ended January following	1976	1975
	(thousands of dollars)	
Operating Summary		
Net Sales	\$244,235	\$208,211
Net Earnings	\$ 7,274	\$ 7,424
Per Share		
Earnings – 1st quarter	\$ 0.18	\$ 0.15
– 2nd quarter	0.16	0.15
– 3rd quarter	0.50	0.52
– 4th quarter	0.41	0.45
Total	\$ 1.25	\$ 1.27
Dividends	\$ 0.225	\$ 0.20
Financial Position		
Working Capital	\$ 29,982	\$ 26,916
Current Ratio	1.89:1	1.82:1
Long Term Debt	\$ 6,264	\$ 7,329
Shareholders' Equity	\$ 46,839	\$ 40,876

President's Report

In the fiscal year ended January 29, 1977, your company set a new sales record of \$244.2 million while profits of \$7.3 million were approximately the same as the preceding year. The flattening of profits was the result of two key factors:

- a sluggish economy and lack of consumer confidence which had an impact on most businesses in Canada.
- the Anti-Inflation Board regulations which restricted the amount of profits retained by the retail divisions.

While accepting that there is need to reduce inflation, in our opinion Canada's economic health will be restored with meaningful incentives to business. Economic growth in real terms can only be achieved with reasonable profit levels which in turn will be reached with improved productivity and sensible wage demands.

The Year in Review

During the year, your Board of Directors approved the following changes in the company's senior management: L. H. Posluns who had served as Chairman since the founding of the company in 1967, was elected Honorary Chairman; James F. Kay was elected Chairman of the Board, I had the privilege to succeed Mr. Kay as President; Jack Posluns added the portfolio of Treasurer to his position of Executive Vice-President; and Donald Williams, formerly Assistant Secretary, was appointed Secretary of the company.

The company's expansion program consisted of the opening of 40 new stores, closing of three unprofitable locations and the acquisition of the Grover's Men's Wear chain in Montreal. (The eight Grover stores will be converted into regular Tip Top stores in 1977.) The new stores and the acquisition brought the total number of stores operated by your company to 344. In addition, our non-consolidated subsidiary Town & Country operates 59 stores.

As the company matures it will continue to pursue evolutionary changes designed to increase sales and profit opportunities. Recently it became evident that a segment of the women's wear market was not being fully served. In order to reach this important segment the nine unit chain of Braemar stores has been separated from Fairweather. It is management's objective to develop Braemar into a national chain by offering a product which is different to Fairweather's and oriented towards the more mature and sophisticated customer. We believe that the development of a separate Braemar chain will give us a greater opportunity to reach these consumers.

During the year National Knitting phased out much of its children's wear production. In 1977, under a new General Manager, it will be moving into a more profitable line of fashion oriented women's sweaters, blouses and co-ordinates.

While the Family Fair division continued to incur losses in 1976, the very substantial sales gain experienced in the first two months of 1977 indicates that a turnaround is now underway.

Ten Years of Growth

In July of 1977 we will celebrate the company's 10th anniversary. In our tenth year of operations we can look back with a great deal of pride to the fact that sales have grown from \$37 million in the first full year to \$244 million in the past fiscal year. Pre tax profit has risen from \$806,000 to the present level of \$14.0 million.

The Years Ahead

As a result of previous decisions on market segmentation, store locations and store layouts, distribution facilities and personnel we have built a strong base for future growth and profit improvement.

Fairweather, Braemar, Suzy Shier and Town & Country are successfully serving different segments of the women's fashion market. Tip Top, Harry Rosen, Big Steel and Thrifty's are an important factor across a

broad spectrum of the men's market. Demographic studies indicate that the markets we are now serving will continue to grow in significance for at least the next 10-15 years.

By aggressively searching out promising locations and maximizing our market coverage Dylex has built a significant presence in the retail business. As can be seen by the information on pages 22 and 23 we now have prime retail space in almost all the major shopping centres in Canada and are well represented in the downtown areas of Canada's larger urban communities.

The market penetration we have achieved as a retailer through a combination of prime locations and a large number of stores is important in determining success from several points of view. The coverage not only provides the consumer traffic necessary to generate sales but also enhances the attractiveness of Dylex to developers looking for tenants in new projects. Our real estate people can deal from a position of strength in negotiating for new locations. This is an asset that is not shown in the balance sheet.

We, at Dylex, have followed and will continue to follow a policy of providing an exciting and attractive environment for the consumer. Stores opened during recent years feature the latest in design and fixturing. Older stores are reviewed on a regular basis to ensure that they continue to meet the needs of today's consumer. When necessary the stores are renovated to bring them up to date.

Last year we opened a modern central distribution centre which enables us to move merchandise to our stores across Canada quickly and efficiently with resulting savings in cost. Based upon current estimates the facility should meet our needs for the next four to five years.

The establishment of Dylex as Canada's leading specialty retailer has become more and more evident in the last few years and this position will be strengthened with further investment in new stores. Dylex will still however continue to be an important factor in Canadian apparel manufacturing. The interaction between fashion manufacturing and retailing will always be an additional benefit to the company. In manufacturing we expect to be among the leaders in the introduction of new techniques and equipment designed to improve our competitiveness and efficiency.

One of the company's assets has been and will continue to be its people. As we find and develop new people we look for the ability of the entrepreneur coupled with the skills of the modern manager. It is management's opinion that Dylex owes its success to its heritage of entrepreneurial ability and will continue to foster a combination of the innovative skills of the merchant combined with the necessary disciplines of the modern manager in its senior people. We believe that our current management team (shown on pages 24 to 26) possess this combination of skills.

Leases - A New Perspective

The opening of new stores and our continuing renovation program involve us in substantial expenditures on fixturing and equipment. We have chosen to finance these expenditures through leases which generally last seven years, a period we believe conservatively equates the cost and estimated useful life of the assets. Under current accounting practice both the value of a company's fixed assets and the impact of the lease commitments on the capital structure tends to be obscured. If our outstanding commercial leases were reflected in the financial statements at their present value an additional \$22 million would be shown as fixed assets financed by a similar amount of long-term debt.

Our requirements for commercial lease financing are expected to moderate during the next five years. By 1979, the new leases taken out are expected to equal the old leases terminated.

Another factor that should be noted is that our long-term leases on 1.7 million square feet in prime retail locations have a very real value. Although it is difficult to determine the value of such an asset our own experience can give an indication of the worth of our leases. When we seek to locate a store in an existing centre we are obliged to pay a premium in order to 'buy out' the lease. In recent years the premium we have paid has ranged generally from \$10 to \$20 per square foot.

Company Goals

The following is a series of goals which we have set for ourselves over the next five years:

- We will continue to provide products that give the consumer good value.
- We will strive to double our retail sales over the next five years by sales increases of 12 to 15% yearly. This will be achieved through increased productivity and the addition of new retail outlets.
- We wish to attain a 10% return on sales from our retail divisions. During recent years our profitability has been inhibited initially by our rapid expansion and more recently the A.I.B. program. Profits should increase as we start to realize the benefits of our past investment in locations, distribution facilities and personnel.
- We will also seek a return of 10% on sales from our manufacturing divisions. We will achieve this goal through greater production efficiency, the use of new technology and innovative marketing.
- We will retain our strong financial position. This will involve keeping a working capital ratio of close to 2:1 and maintaining a level of debt, including lease obligations, that can be reasonably supported by the operations.
- We will develop a people planning program that will enable employees to improve both their skills and job satisfaction and will also ensure the availability of capable management in the future.

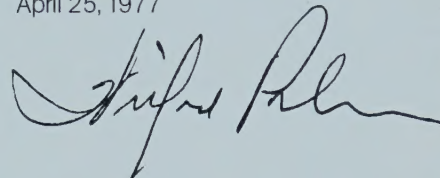
Dividend Policy

The Board considers it necessary as the company matures to adopt and maintain a dividend policy which will provide a meaningful return to its investors. It is the intention of the Board, in the absence of any A.I.B. regulations, to increase dividends in direct relationship to our growth in earnings.

Appreciation

An indifferent economy and the constraints of the anti-inflation program provided the main ingredients for a difficult and frustrating year for our more than 7,100 people at Dylex. They merit special thanks for the splendid way in which they responded to the challenge of the past year.

April 25, 1977



Wilfred Posluns
President



Fairweather

Fairweather stores feature up to date layouts stressing colour, lighting and merchandise display designed to appeal to the 15-30 age group. The stores carry a broad range of the latest, fashionable, moderately priced women's clothing and accessories. Twice a year management and senior buyers visit the fashion capitals of Europe to supplement the coats, dresses, sportswear, furs and leather selected from domestic manufacturers. Price and quality are carefully matched to provide Fairweather customers with outstanding value.

Most Fairweather stores include a "Big Steel" boutique which features a select range of very modern clothes for the younger man.

At the year end there were 68 Fairweather stores located in major shopping centres and downtown areas throughout Canada. The stores vary in size with an average of 8,300 square feet.

Braemar

There are nine Braemar stores located primarily in Ontario. The stores average 4,200 square feet and carry selective lines of sportswear, dresses and coats.

In 1977 Braemar expects to change the emphasis of its stores by offering fashionable merchandise appealing to a more sophisticated group of consumers.

Suzy Shier

Suzy Shier stores emphasize medium priced, fashionable merchandise directed at the younger segment of the women's clothing market.

Coats, dresses and sportswear are sold through stores averaging 2,500 square feet. The Montreal based Suzy Shier chain is well represented in the Quebec market. The recent expansion program has broadened the base of the division. At the year end there were 39 stores.





Tip Top

Layout, fixtures and lighting have been carefully co-ordinated to enhance the excellent value in men's suits, shirts, sportswear and accessories found in Tip Top stores. The merchandise, while current, does not cover the extremes of the market place either in price or fashion. Knowledgeable salesmen, trained to assist customers to select the right items, are an important factor in the continued growth of the division.

There are 114 Tip Top stores operating generally in prime shopping centres and downtown locations throughout Canada. This includes the highly respected eight store Grover's chain acquired during the year by the division. During 1977 these stores will be converted into regular Tip Top stores.

Tip Top stores vary in size but average 4,000 square feet.

Harry Rosen

There are six Harry Rosen stores (average 5,200 square feet) which appeal to a more selective segment of the men's clothing market. Harry Rosen has built a reputation among professional men and executives in the Toronto area as a chain where high quality, fashionable suits and accessories can be found.

Sales personnel are specially trained to provide information on styles or trends, garment care, or ideas on co-ordinating accessories. In many instances customers will seek out a specific sales person who has taken a personal interest in his fashion needs.





Thrifty's

A trip to one of their 78 stores is all that is required to confirm that Thrifty's has found the right combination of ingredients to fill the needs of today's younger shopper. The stores have a wide selection of the latest in unisex leisure wear. Levi, Lee, G.W.G., Apple Bee and Dale are a few of the popular brand names sold across Canada. Through careful inventory control the stores are generally able to provide a wide selection of styles and sizes thus enabling their customers to get the items they are looking for.

A selected number of stores have a tack shop called 'Tack 'n Togs' which feature riding apparel and accessories.

Thrifty's stores generally average 2,000 square feet.

Family Fair

Family Fair stores carry budget merchandise to meet the total clothing needs of each member of the family. Family Fair competes with various discount merchandisers.

At the year end there were 30 Family Fair stores in Ontario varying in size with an average of 13,000 square feet.





Manufacturing

Dylex Limited has a number of manufacturing operations serving the needs of its own divisions as well as other retailers. Posluns Sportswear makes coats for both the women's and junior market. National Knitting Mills phased out its children's wear lines in 1976. A new line of top value blouses, sweaters and co-ordinates will be introduced in 1977 as part of a program to enhance sales and profits.

Canadian Clothiers manufacture suits for the Tip Top chain under the Cerruti, Leishman and Henley labels and for other retailers under the Johnny Carson label. Through the introduction of new techniques and equipment the division expects to maintain its competitive position in the suit market.

Nu Mode Dress manufactures a variety of women's dresses. Its production and inventory policies permit it to meet the needs of both large department stores and small specialty retailers.

Manchester Children's Wear manufactures coats for both the children's and junior markets. Sales are made to a variety of customers across Canada from large department stores to small retailers.

In addition to the above companies which are included in the consolidated financial statements Dylex has a $\frac{1}{3}$ interest in the Forsyth Group and a 42% interest in Manchester Manufacturing Inc.

The Forsyth Group is Canada's leading manufacturer of men's shirts under the Forsyth and Pierre Cardin labels as well as a number of private brands. The company has expanded its product line into sweaters, jeans and leisure wear. The company also manufactures Lady Manhattan shirts for women.

Manchester Manufacturing Inc. operates a modern manufacturing facility in Colebrook, New Hampshire. Its children's coats are primarily sold to Sears Roebuck. It has taken steps to expand its sales to other retailers including better department stores and specialty retailers.



Sales

Sales increased to \$244.2 million from \$208.2 million or 17.3% during the fiscal year ended January 29, 1977. The improvement is the result of continued growth of the retail operations which are analyzed below.

Women's Wear

Women's wear sales increased 14.7% during the year from \$76.0 to \$87.2 million.

	1976	1975
Sales ('000)	\$87,165	\$76,021
% increase	14.7	32.3
Sales per square foot	\$129	\$129
Sales per store ('000)	\$805	\$898

The improvement in sales was primarily the result of the addition of four new Fairweather and 13 Suzy Shier stores during the year. A general softening of consumer demand prevented the women's wear divisions from achieving anticipated gains in productivity in existing stores. In addition Suzy Shier experienced many of the difficulties normally associated with a rapid expansion.

Town & Country sales, which are not included in the consolidated results increased 15.8% during the year from \$15.8 million to \$18.3 million. During the year two new stores were opened.

Men's Wear

Men's wear sales were \$74 million, an increase of 21.6% over the previous year.

	1976	1975
Sales ('000)	\$73,954	\$60,798
% increase	21.6	18.1
Sales per square foot	\$152	\$142
Sales per store ('000)	\$609	\$556

Despite a general softening of retail sales, Tip Top was able to improve productivity in its existing stores. During the year Dylex acquired the Montreal based Grover's Men's Wear chain of eight stores. While operating under the direction of Tip Top management these stores experienced substantial sales gains. In addition eight new stores were opened during the year.

Family Wear

Family wear sales increased 22.2% from \$50.8 million to \$62.1 million.

	1976	1975
Sales ('000)	\$62,078	\$50,806
% increase	22.2	29.2
Sales per square foot	\$106	\$ 85
Sales per store ('000)	\$575	\$554

Thrifty's continued to produce new sales records during 1976. During the year 15 new stores were opened including a pilot location selling Levi products exclusively under the name House of Strauss. In addition, productivity improved in existing stores.

The Thrifty chain continues to demonstrate its capability to produce dynamic performances and in the past year it accounted for 68% of Family Wear sales—a significant increase over the preceding year.

As part of a continuing program to refine the size and location of its retail outlets Family Fair closed down three stores in the Toronto area. Merchandising efforts designed to improve the inventory mix in the stores now appear to be having a positive effect.

Manufacturing

Manufacturing sales were \$21 million, a slight increase over the previous year. Manchester Children's Wear has successfully recovered from the transfer of its export sales to Manchester Manufacturing Inc. located in the United States. The turnaround was achieved through the expansion of junior coat sales.

Nu Mode Dress continued its record of achievement with its products well received by retailers and its sales again reached new highs.

Sales in National Knitting declined during the year. As a result of increasing pressure from imports steps were taken to phase out the children's line. The introduction of a new line of fashion oriented women's sweaters, blouses and co-ordinates are not expected to have an impact on sales until the latter part of 1977.

Sales of Manchester Manufacturing Inc., which are not included in the consolidated results, improved substantially. The Forsyth

Group, in which we have a 1/3 interest, expanded its product lines through the introduction of a number of branded, imported products.

Dylex Acceptance

In 1976 Dylex Acceptance introduced a number of programs designed to increase consumer use of its credit facilities. Credit sales through the acceptance company increased 28%, resulting in customer service revenue of \$1.2 million.

Costs and Expenses

Retail margins came under considerable competitive pressure as a result of a sluggish economy during most of 1976. In addition, the Anti-Inflation Regulations weighed more severely on retailers than others. Gross margins were effectively frozen at 1974 levels thus preventing retailers from recovering legitimate increases in operating costs. Rents, wages and construction costs, which are normally recovered through improvements in margins, have increased substantially in recent years. Careful control of margins and costs were required in order to pass on even a portion of these costs to customers.

As a result of improvements in controlling inventory levels Fairweather, Tip Top and Thrifty's were able to complete a difficult year and set a strong base for 1977. Although some excess revenue was earned in 1976 the amounts are not expected to create serious problems in achieving the dual requirements of complying with the new, more realistic Anti-Inflation Regulations which will be in effect in 1977 and in earning a more reasonable return on sales.

Gross margins in the Family Fair division were adversely affected for part of the year by problems in their inventory mix.

Most of the major operating costs other than wages were not subject to review by the Anti-Inflation Board. Occupancy costs such as rents, property and business taxes continued to escalate. Energy costs spiralled during the year as a result of legislated increases in utility rates. The increases in these expenses contributed to an erosion of profit levels.

Total interest expense increased from \$1.4 million to \$1.6 million.

As a result of an increase in the profits that are eligible for the lower rates of tax on manufacturing profits and the application of normal tax rates to the full year, the effective tax rate was lower than the previous year.

Income from investments did not change significantly during the year. Although sales improved, the Forsyth Group and Town & Country were subject to the same pressures on profits as Dylex.

Earnings

Net earnings were \$7.3 million or \$1.25 per share.

	1976	% increase (decrease)
Sales ('000)	\$244,235	17.3
Earnings ('000)	\$7,274	(2.1)
Earnings per share	\$1.25	(1.6)

Dividends

Dividends increased from 20¢ per share to 22½¢ with the payment of an extra dividend of 2½¢ in March of 1976, resulting in a dividend payout of \$1.3 million during the year.

Balance Sheet

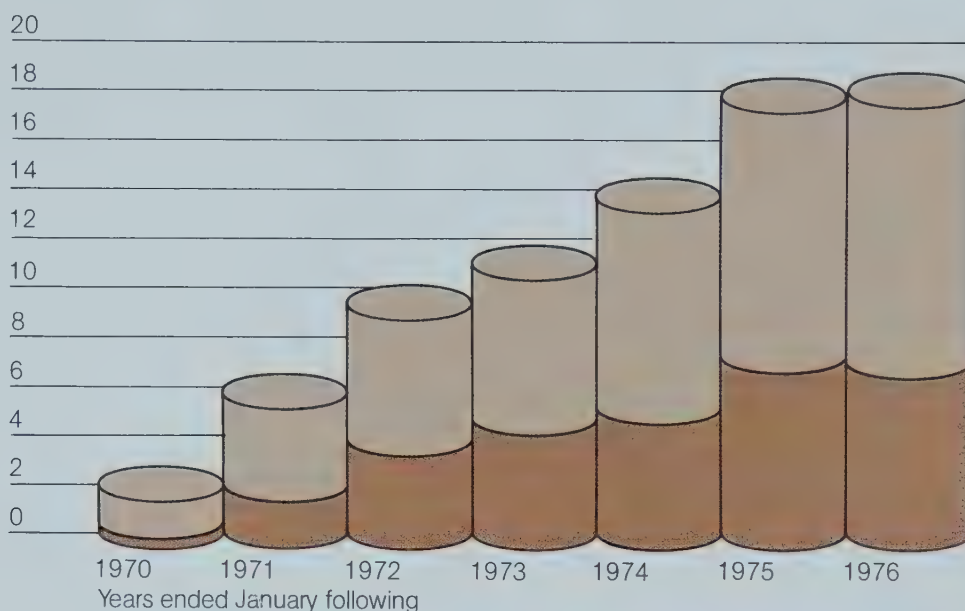
Working capital increased \$3.1 million during the year from \$26.9 million to \$30.0 million. The working capital ratio improved from 1.8:1 to 1.9:1. Inventory of \$41.0 million or 64.5% of current assets, compared with 64.4% in the previous year, was the largest item in current assets. Inventory turnover improved in the retail divisions through better stock control. Receivables of \$17.4 million result primarily from manufacturing operations and the acceptance company.

Shareholders equity increased to \$46.8 million while long-term debt declined to \$6.3. The minority interest reflects our partners share of the consolidated subsidiaries.

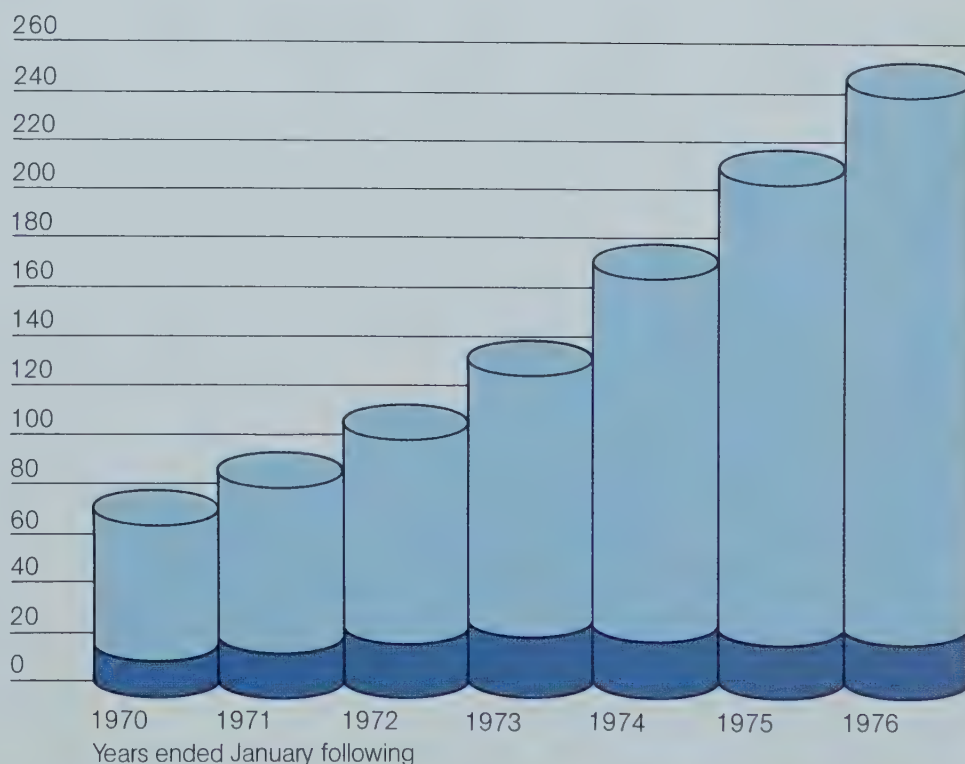
	1976	1975
Net book value of assets	\$46,839	\$40,876
Shares outstanding	5,826	5,826
Net book value per share	\$8.04	\$7.01



Earnings (Millions of dollars)



Sales (Millions of dollars)



Seven Year Financial Review

(Years ended January following)	1976	1975	1974	1973	1972	1971	1970
Consolidated Operating Results (thousands of dollars)							
Sales							
Retail	\$223,197	187,625	148,298	107,446	82,768	66,253	54,405
Fashion Manufacturing	24,700	23,941	25,488	27,124	23,688	20,481	17,803
Inter group	(3,662)	(3,355)	(2,495)	(2,016)	(1,241)	(1,582)	(1,045)
Net Sales	\$244,235	208,211	171,291	132,554	105,215	85,152	71,163
Net earnings*	\$ 7,274	7,424	5,242	4,466	3,781	2,333	408
Financial Position (thousands of dollars)							
Working capital (note 1)	\$29,982	26,916	22,556	17,848	12,001	11,432	9,859
Working capital ratio	1.9	1.8	1.8	1.6	1.4	1.7	1.6
Shareholders' Equity (note 2)	\$46,839	40,876	34,654	30,228	23,264	19,476	16,845
Per Share Figures							
Net earnings*	\$ 1.25	1.27	0.90	0.77	0.65	0.40	0.07
Book Value (note 2)	\$ 8.04	7.01	5.95	5.19	4.00	3.37	2.92
Dividends on Class "A" shares	\$0.225	0.20	0.14	0.12	0.075	0.005	0.005
Average shares outstanding (000's)	5,826	5,826	5,826	5,826	5,803	5,786	5,774
Toronto Stock Exchange quotation							
Class "A" shares—high	\$ 8¼	8⅞	7¾	12¾	11⅞	4⅞	4.00
low	\$ 5⅞	4.30	3.00	5⅞	4.25	1.80	1.75
Number of Shareholders	2,592	2,683	2,869	2,743	2,693	2,680	2,337
Retail Statistics							
Sales (thousands of dollars)							
Women's (note 4)	\$ 87,165	76,021	57,473	38,136	30,629	24,918	18,387
Men's	73,954	60,798	51,500	40,677	35,326	28,450	24,432
Family (note 4)	62,078	50,806	39,325	28,633	16,813	12,885	11,586
Total Group	\$223,197	187,625	148,298	107,446	82,768	66,253	54,405
Number of stores	344	299	237	195	134	117	109
Store space end of year (000's sq. ft.)	1,741	1,630	1,472	1,252	851	760	700
Average store space during year (000's sq. ft.)	1,685	1,556	1,365	1,038	784	740	645
Sales per square foot (note 3)							
Women's (note 4)	\$129	129	120	111	112	93	78
Men's	\$152	142	128	125	128	106	96
Family (note 4)	\$106	85	73	70	68	55	50
Total Group	\$129	119	105	101	103	88	82

*Before extraordinary items

Notes

- 1 Excluding finance subsidiary in 1970 and 1971
- 2 After writing off goodwill on acquisitions
- 3 Based on average square footage in use excluding outside wholesale sales and sales of integrated manufacturing division
- 4 Includes sales of subsidiaries since acquisition

Consolidated Statement of Earnings

Dylex Limited

	January 29, 1977	January 31, 1976
	(thousands of dollars)	
Sales		
Retail	\$223,197	\$187,625
Fashion manufacturing	21,038	20,586
Net sales	244,235	208,211
Customer service income	1,206	953
	\$245,441	\$209,164
Earnings from operations before the following charges	\$ 18,223	\$ 17,874
Depreciation	2,342	2,042
Amortization of deferred charges	242	329
Amortization of goodwill	25	14
Interest on long-term debt	782	517
Other interest	789	890
Earnings before income taxes	14,043	14,082
Income taxes	6,600	6,830
	7,443	7,252
Income from investments (note 5)	1,232	1,188
Minority interest in subsidiaries' earnings	(1,401)	(1,016)
Net earnings	\$ 7,274	\$ 7,424
Earnings per share	\$ 1.25	\$ 1.27

Consolidated Statement of Retained Earnings

Balance at beginning of year	\$16,092	\$ 9,848
Net earnings	7,274	7,424
Transfer from appraisal excess	23	22
Tax paid by subsidiary company on 1971 undistributed income net of minority interest	—	(37)
	23,389	17,257
Dividends		
Common Shares (1977 – 22½¢, 1976 – 20¢)	190	172
Class "A" Shares (1977 – 22½¢, 1976 – 20¢)	1,121	993
	1,311	1,165
Balance at end of year	\$22,078	\$16,092

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Financial Position

Dylex Limited (Incorporated under the laws of Canada)

	January 29, 1977	January 31, 1976
	(thousands of dollars)	
Current assets		
Cash and short term deposits	\$ 4,226	\$ 4,381
Accounts receivable	17,432	16,060
Inventories (note 2)	41,033	38,365
Prepaid expenses	690	594
Notes and other investments due within one year (note 3)	201	189
	<u>63,582</u>	<u>59,589</u>
Current liabilities		
Accounts payable and accrued	25,398	24,003
Income and other taxes payable	3,860	4,516
Notes payable (note 4)	2,993	2,650
Long-term debt due within one year (note 8)	1,349	1,504
	<u>33,600</u>	<u>32,673</u>
Working capital	<u>29,982</u>	<u>26,916</u>
Other assets		
Investment in associate companies (note 5)	6,733	4,482
Notes and other investments (note 3)	3,100	3,304
Advances – Key Employee Stock Plan (note 6)	674	856
Fixed assets (note 7)	16,189	15,070
Deferred charges at cost less amortization	563	346
Goodwill at cost less amortization	946	971
Assets employed	<u>\$58,187</u>	<u>\$51,945</u>
Financed by – other liabilities		
Long-term debt (note 8)	\$ 6,264	\$ 7,329
Bank loan – Key Employee Stock Plan (note 6)	674	856
Deferred income taxes	738	613
Minority interests	3,672	2,271
	<u>11,348</u>	<u>11,069</u>
Shareholders' equity		
Capital Stock (note 9)		
Common Shares	1,760	1,785
Class "A" Shares	21,323	21,298
Excess of appraised value of fixed assets over cost	1,678	1,701
Retained earnings	22,078	16,092
	<u>46,839</u>	<u>40,876</u>
Capital employed	<u>\$58,187</u>	<u>\$51,945</u>

Approved on behalf of the board

J.F. Kay, Director

W. Posluns, Director

Consolidated Statement of Changes in Financial Position

Dylex Limited

	January 29, 1977	January 31, 1976
	(thousands of dollars)	
Source of funds		
Net earnings	\$ 7,274	\$ 7,424
Depreciation and amortization	2,609	2,385
Income from investments	(1,232)	(1,188)
Change in deferred income taxes	125	(170)
Minority interest in net earnings	1,401	1,016
Funds from operations	10,177	9,467
Decrease in investments and advances	204	490
Disposal of fixed assets	119	43
Increase in long-term debt	—	3,674
	10,500	13,674
Use of funds		
Acquisition of subsidiary	—	1,286
Fixed assets	3,580	2,601
Deferred charges	459	480
Investments and advances	1,019	—
Reduction of long-term debt including current portion	1,065	3,586
Dividends	1,311	1,165
Minority interest—dividends and taxes paid thereon	—	159
Tax paid by subsidiary on 1971 undistributed income net of minority interest	—	37
	7,434	9,314
Net increase in working capital	3,066	4,360
Working capital, at beginning of year	26,916	22,556
Working capital, at end of year	\$29,982	\$26,916

The accompanying notes form an integral part of the financial statements.

Notes to Consolidated Financial Statements as at January 29, 1977

Dylex Limited

1. Accounting policies

Principles of consolidation

The Consolidated Financial Statements include the accounts of all divisions and subsidiaries of Dylex Limited.

Where 50% or less of the outstanding common shares of associate companies are held, the investment is initially recorded at cost and adjusted annually to reflect the Company's share of earnings and dividends.

Inventories

Retail store inventories are valued, using the retail inventory method, at the lower of cost and net realizable value, less normal profit margins. Fashion manufacturing inventories are priced at the lower of cost (principally on a first-in, first-out basis) and net realizable value.

Fixed assets

Fixed assets are recorded at cost, except for the Company's property at 637 Lakeshore Boulevard West, Toronto, which is at 1967 appraised value. The appraisal excess is being transferred to retained earnings at the rate used for the depreciation of buildings.

Depreciation is designed to amortize the fixed assets on a straight-line basis over their estimated useful lives at the following rates:

Buildings	2½%
Equipment and leasehold improvements	10 to 20%
Automotive	25%

When fixed assets are sold or retired, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss is reflected in the Consolidated Statement of Earnings.

Goodwill

The excess of purchase price over the fair market value of the net assets of subsidiaries and associates is being amortized on a straight-line basis over a period not exceeding forty years. Goodwill on acquisitions prior to March 31, 1974 was written off to retained earnings.

Deferred income taxes

The Company follows the deferral method of income tax allocation under which the provision for income taxes relates to the accounting income for the period. The accumulated tax reductions applicable to future years result principally from claiming amounts for tax purposes in excess of book depreciation.

2. Inventories

	1977	1976
Retail	\$37,013,000	\$34,348,000
Fashion manufacturing	4,020,000	4,017,000
	<u>\$41,033,000</u>	<u>\$38,365,000</u>

3. Notes and other investments

This item is comprised mainly of a 7% unsecured note for \$3,031,000 from an associate company, Strathearn House Group Limited, due February 15, 1983, and repayable in equal monthly instalments on a 15 year amortization basis.

4. Notes payable

This amount is comprised of short-term notes payable by the finance subsidiary to associate companies.

5. Investment in associate companies

	Percentage Ownership
Brody's Town & Country (1967) Limited	50%
Drug World Limited	50%
The Shoe Shoppe Limited	50%
Manchester Manufacturing Inc.	42%
Forsyth Trading Company Limited and its subsidiaries	33⅓%

6. Key employee stock plan

Under this plan, Common and Class "A" shares have been allocated to the Trustees of the Company's Key Employee Stock Plan to be issued at a price not exceeding a 15% discount from market at the time of allotment. As at January 29, 1977, 2,434 Class "A" shares remain to be issued (note 9). To facilitate the purchase of these shares by key employees, the Company has provided \$674,000 as at January 29, 1977 to the Trustees of the Plan, to be repaid over a period not exceeding ten years.

7. Fixed assets

	1977	1976
Land	\$ 1,181,000	\$ 1,181,000
Building	5,966,000	4,207,000
Equipment and leasehold improvements	21,597,000	20,912,000
	28,744,000	26,300,000
Accumulated depreciation	12,555,000	11,230,000
	\$16,189,000	\$15,070,000

8. Long-term debt

	1977	1976
Notes payable by finance subsidiary principally to directors, officers and shareholders of the Company and their associates at prime bank rate. Current notes which are expected to be renewed are shown as long-term.	\$2,753,000	\$3,263,000
Bank term loan—prime plus 1½% due June 30, 1981	725,000	835,000
10% First mortgage on building, due October 15, 1978	1,452,000	1,516,000
9½% First mortgage on building, due December 1, 1997	617,000	626,000
Finance company notes, secured by chattel mortgages	366,000	708,000
Promissory notes, non-interest bearing, due December 1, 1980	357,000	446,000
Other, principally landlord loans	1,343,000	1,439,000
	7,613,000	8,833,000
Due within one year	1,349,000	1,504,000
	\$6,264,000	\$7,329,000

8. Long-term debt continued

Requirements for repayment within the next five years are as follows:

1978	\$1,349,000
1979	\$2,516,000
1980	\$1,093,000
1981	\$ 835,000
1982	\$ 413,000

9. Capital Stock

Authorized

6,000,000 Common Shares without par value
20,000,000 Class "A" participating preference
shares, without par value
1,000 Class "B" non-participating preference
shares, without par value

Issued	1977	1976
836,892 Common Shares (1976-848,512)	\$ 1,760,000	\$ 1,785,000
4,988,674 Class "A" Shares (1976-4,977,054)	\$21,323,000	\$21,298,000

The Common Shares are convertible into Class "A" Shares on a one-for-one basis. During the year, 11,620 Common Shares were converted. Reference is also made to note 6.

10. Remuneration of directors and officers of Dylex Limited

	Number Directors	Number Officers	Directors also Officers	Remuneration (including profit sharing incentive payments)	
				Directors	Officers
1977	20	20	13	\$4,000	\$3,027,000
1976 (restated on a comparative basis)	20	19	13	\$4,000	\$2,833,000

11. Lease commitments

Aggregate rentals paid on property and equipment leases for the year ended January 29, 1977 amounted to \$16,311,000 (1976-\$13,253,000). Minimum annual rentals for the next five years on long-term property and equipment leases, in effect at January 29, 1977 are:

1978	\$14,817,000
1979	\$14,841,000
1980	\$14,506,000
1981	\$14,387,000
1982	\$13,989,000

12. Anti-inflation legislation

The Company is subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

Management believes that, based upon their interpretations and their compliance tests, adequate provision has been made for any excess revenue generated to date.

13. Contingent liabilities

The Company, together with others, has guaranteed the bank loans and notes payable of associate companies to the extent of \$2,500,000.

As at January 29, 1977, the maximum contingent liability covered by these guarantees was approximately \$1,500,000, but Dylex holds a cross guarantee from other guarantors for approximately \$750,000.

Auditors' Report

To the shareholders of Dylex Limited.

We have examined the Consolidated Statement of Financial Position of Dylex Limited as at January 29, 1977, and the Consolidated Statements of Earnings, Retained Earnings and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. For an associate company accounted for by the equity method, we have relied on the report of the auditors who have examined its financial statements.

In our opinion, these Consolidated Financial Statements present fairly the financial position of the company as at January 29, 1977, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wm. Eisenberg & Co.
Chartered Accountants

Toronto, Canada,
March 28, 1977.

Retail Stores by Location

	Total	Fairweather*	Tip Top	Harry Rosen	Family Fair	Thrifty's	Town & Country	Suzy Shier
British Columbia	29	10	13	—	—	6	—	—
Alberta	39	9	17	—	—	13	—	—
Saskatchewan	6	1	3	—	—	2	—	—
Manitoba	16	3	5	—	—	8	—	—
Ontario	230	41	42	6	30	41	52	18
Quebec	50	7	23	—	—	—	2	18
New Brunswick	15	3	4	—	—	4	2	2
Nova Scotia	15	3	5	—	—	3	3	1
Newfoundland	3	—	2	—	—	1	—	—
Total	403	77	114	6	30	78	59	39

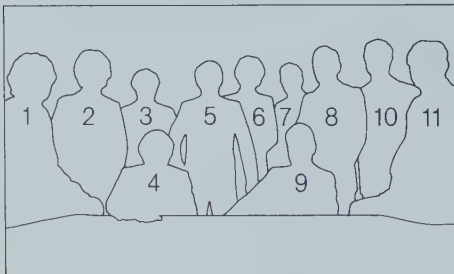
Dylex Representation in Metropolitan Areas

Metro areas with popula- tions over 100,000. (1976)	'000	Personal Disposable Income per Capita \$	Retail Sales Per Capita \$	Fairweather*	Tip Top	Harry Rosen	Family Fair	Thrifty's	Town & Country	Suzy Shier
Toronto	2,821	6,500	2,640	17	14	6	8	15	20	4
Montreal	2,804	5,550	2,420	2	15	—	—	—	1	7
Vancouver	1,176	6,140	2,730	10	9	—	—	4	—	—
Ottawa-Hull	684	6,510	2,450	5	6	—	—	3	2	2
Winnipeg	583	5,930	2,630	3	5	—	—	7	—	—
Edmonton	551	6,240	3,450	5	8	—	—	6	—	—
Quebec City	543	5,260	2,880	4	4	—	—	—	—	2
Hamilton	538	6,200	2,700	5	4	—	3	2	3	2
Calgary	464	6,540	3,520	4	7	—	—	6	—	—
St. Catharines- Niagara	305	5,750	2,670	2	1	—	—	1	1	—
Kitchener	276	5,620	2,660	2	2	—	2	3	2	1
London	271	5,870	2,890	2	1	—	2	3	2	1
Halifax	268	5,520	2,560	3	6	—	—	3	3	1
Windsor	249	6,600	2,780	1	1	—	1	2	2	1
Victoria	220	5,540	3,030	—	2	—	—	2	—	—
Sudbury	159	6,690	2,650	1	2	—	—	1	—	2
Regina	154	5,980	3,580	—	2	—	—	2	—	—
St. John's	143	4,420	3,230	—	2	—	—	1	—	—
Oshawa	138	5,860	2,640	1	1	—	1	1	1	—
Saskatoon	136	5,960	3,460	1	1	—	—	—	—	—
Chicoutimi- Jonquiere	129	5,080	2,370	—	1	—	—	—	—	3
Thunder Bay	121	5,680	2,750	—	1	—	—	2	1	1
Saint John	114	5,110	2,750	—	1	—	—	1	—	—
Canada	23,110	5,370	2,530							

*Includes Braemar stores

Representation in Major Shopping Centres in Canada

Centre	Location	Sq. ft. '000	No. of stores	Major Tenants	Dylex Representation
Square One	Mississauga	1,541	160	Sears, The Bay	Tip Top, Fairweather, Thrifty's
Place Laurier	Quebec City	1,432	275	Sears, Syndicat, Paquet	Tip Top, Fairweather
Yorkdale	Toronto	1,206	105	Eaton, Simpsons	Tip Top, Harry Rosen, Fairweather, Braemar, Town & Country, Thrifty's
Galeries d'Anjou	Montreal	1,100	150	Eaton, Simpsons	Tip Top
Scarborough Town Centre	Toronto	1,070	132	Eaton, Simpsons	Tip Top, Harry Rosen, Fairweather, Town & Country, Thrifty's, Suzy Shier
Le Carrefour Laval	Montreal	1,037	130	Eaton, Simpsons	Tip Top, Fairweather, Suzy Shier
Chinook Ridge	Calgary	1,020	230	Woodwards, Sears	Tip Top, Fairweather, Thrifty's
Pacific Centre	Vancouver	1,005	130	Eaton, The Bay	Tip Top, Fairweather, Thrifty's
Pen Centre	St. Catharines	1,000	105	Sears, Eaton, Robinsons	Tip Top, Fairweather, Braemar, Thrifty's
Sherway Gardens	Toronto	960	195	Eaton, Simpsons	Tip Top, Harry Rosen, Fairweather, Braemar, Town & Country, Thrifty's
Polo Park	Winnipeg	871	80	Sears, Eaton	Tip Top, Fairweather, Thrifty's
Edmonton Centre	Edmonton	856	90	Woodwards, Eaton	Tip Top, Fairweather, Thrifty's
Fairview Park	Kitchener	850	93	Sears, Simpsons	Tip Top, Fairweather, Town & Country, Family Fair, Thrifty's
Kingsway Gardens	Edmonton	848	93	Sears, Zellers	Tip Top, Fairweather, Thrifty's
Bramalea City Centre	Bramalea	830	127	The Bay, Eaton	Tip Top, Fairweather, Town & Country, Family Fair, Thrifty's
Place Versailles	Montreal	800	99	The Bay, Pascal Miracle Mart	Tip Top, Suzy Shier
The Centre Mall	Hamilton	800	83	Sears, Robinsons	Tip Top, Fairweather, Thrifty's
Devonshire	Windsor	775	90	Sears, Simpsons	Tip Top, Fairweather, Town & Country, Suzy Shier, Thrifty's
Fairview Centre	Montreal	750	85	Simpsons, Eaton	Tip Top
Oshawa Centre	Oshawa	734	90	Eaton, Sears	Tip Top, Fairweather, Town & Country, Family Fair, Thrifty's
Simpson Mall	Halifax	711	27	Simpsons, Sobey's	Tip Top, Fairweather, Town & Country, Thrifty's
Fairview Mall	Toronto	700	104	Simpsons, The Bay	Tip Top, Harry Rosen, Fairweather, Town & Country, Thrifty's
Bayshore	Ottawa	695	100	Eaton, The Bay	Tip Top, Fairweather, Town & Country, Thrifty's
Southgate	Edmonton	684	48	Woodwards, The Bay	Tip Top, Fairweather
Place Vertu	Montreal	660	110	Sears, The Bay, K-Mart	Tip Top
Carrefour de l'Estrie	Sherbrooke	660	108	Eaton, Sears, Pascal	Tip Top, Suzy Shier
Eastgate Square	Hamilton	645	109	Eaton, Woolco, Robinsons	Tip Top, Fairweather, Town & Country, Suzy Shier
Place Fleur de Lys	Quebec City	630	100	Sears, Syndicat, K-Mart	Tip Top, Fairweather
Shopper's World	Brampton	629	117	Simpsons, K-Mart	Town & Country, Thrifty's
Les Galeries Chagnon	Quebec City	626	65	Woolco, Sears	Tip Top
Market Mall	Calgary	620	70	Woodwards, The Bay	Tip Top, Fairweather
Londonderry Mall	Edmonton	616	87	Woolco, The Bay, Eaton	Tip Top, Fairweather, Thrifty's
Park Royal	Vancouver	610	115	Woodwards, Eaton	Tip Top
Place Ste-Foy	Quebec City	600	97	Eaton, Holt Renfrew	Suzy Shier
Burlington Mall	Burlington	600	90	Eaton, Robinsons, Sears	Tip Top, Fairweather, Braemar, Town & Country
Towne & Countrye Square	Toronto	600	71	The Bay, Woolco	Tip Top, Fairweather, Town & Country



1. Ruby Osten
President
Shoe Shoppe

2. Stephen Gross
Treasurer & Assistant Secretary
Suzy Shier

3. Joseph Weisfeld
President
Drug World

4. Lionel Robins
Vice-President
Fairweather

5. Irving Levine
Vice-President
Fairweather

6. Irving Teitelbaum
President
Suzy Shier

7. Harry Rosen
Vice-President
Harry Rosen Men's Wear

8. Gordon Edelstone
Vice-President
Tip Top

9. William Singer
Director
Dylex Limited

10. Chris Schwartz
Director
Management Information Services

11. Alfred Callegari
Vice-President
Tip Top

Corporate Information

Directors

Kenneth Axelrod
D. W. Casey
George Fine
J. F. Kay
S. F. Kay
David Korn
Irving Levine
Sydney Loftus
Irving Posluns
Jack Posluns
L. H. Posluns
Wilfred Posluns
Lionel Robins
Harry Rosen
Samuel Shainhouse
S. M. Sigel
W. H. Singer
H. J. Stitt, Q.C.
Henry Zagdanski
A. H. Zaldin, Q.C.

Officers

L. H. Posluns
Honorary Chairman of the Board

J. F. Kay
Chairman of the Board

Wilfred Posluns
President

Jack Posluns
Executive Vice-President & Treasurer

Irving Posluns
Executive Vice-President

Kenneth Axelrod
Vice-President
Manchester Clothing

Alfred Callegari
Vice-President
Tip Top

Joel Cooper
Vice-President
Braemar

Gordon Edelstone
Vice-President
Tip Top

George Fine
Vice-President
Family Fair

Irving Levine
Vice-President
Fairweather

Sydney Loftus
Vice-President
Dylex Real Estate

Paul Mancini
Vice-President
Canadian Clothiers

Lionel Robins
Vice-President
Fairweather

Harry Rosen
Vice-President
Harry Rosen Men's Wear

David Rosenberg
Vice-President
Corporate Services

Samuel Shainhouse
Vice-President
National Knitting

Donald Williams
Secretary

Henry Zagdanski
Vice-President
Nu Mode Dress

Subsidiary Companies

Dylex Acceptance Corporation Limited
Fairweather Inc.
Fashion Council Limited
Harry Rosen Men's Wear Limited
National Knitting Mills Company Limited
Suzy Shier Inc.
Thrifty Riding and Sport Shop Limited

Transfer Agent and Registrar

National Trust Company, Limited

Auditors

Wm. Eisenberg & Co.,
Chartered Accountants

Bankers

Bank of Montreal

Listed on

Toronto Stock Exchange
Montreal Stock Exchange

Head Office

637 Lake Shore Boulevard West
Toronto, Canada
M5V 1A8



1. Jack Posluns
Executive Vice-President & Treasurer
Dylex Limited

2. Herbert Bernard
General Manager
National Knitting

3. Wayne Hartle
General Manager
Irving Posluns Sportswear

4. Wilfred Posluns
President
Dylex Limited

5. Samuel Shainhouse
Vice-President
National Knitting

6. Henry Zagdanski
Vice-President
Nu Mode Dress

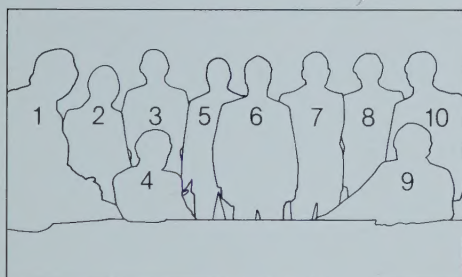
7. Irving Lerman
President
Thrifty's

8. James Kay
Chairman of the Board
Dylex Limited

9. Charles Diamond
Vice-President
Thrifty's

10. Marshall Clavir
President
Lady Manhattan

11. Joel Cooper
Vice-President
Braemar



1. Alan Lerman
Vice-President
Thrifty's

2. Irving Katsof
Vice-President
Suzy Shier

3. Donald Williams
Secretary
Dylex Limited

4. David Rosenberg
Vice-President
Corporate Services

5. Sydney Loftus
Vice-President
Dylex Real Estate

6. George Fine
Vice-President
Family Fair

7. Irving Posluns
Executive Vice-President
Dylex Limited

8. Oscar Rajskey
Vice-President
Forsyth Trading

9. Nathan Gold
President
Town & Country

10. Paul Mancini
Vice-President
Canadian Clothiers

Not present

Louis Posluns
Honorary Chairman of the Board

Kenneth Axelrod
Vice-President
Manchester Clothing



DYLEX 76

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Dylex Retail Outlets at Quarter End

Fairweather	75
Suzy Shier	31
Tip Top	102
Harry Rosen	6
Thrifty's	69
Family Fair	32
	<u>315</u>

DYLEX LIMITED
637 Lake Shore Boulevard West
Toronto, Ontario
M5V 1A8

DYLEX 76

Fell

Interim
report to
shareholders
six months
ended
July 31
1976

Report to Shareholders

Net sales for the six months ended July 31, 1976 were \$105.3 million, an increase of \$19.2 million over the same period last year. Net profits were \$2.0 million or 34 cents per share.

Sales in the retail divisions continued to be satisfactory but increased at a slower rate during the second quarter. Sixteen new stores have been added since year end and subsequent to the end of the quarter eight men's wear stores were purchased in Montreal providing outlets for our Tip-Top division.

The anti-inflation program continues to influence the company's operating results. We are optimistic that we will maintain our position in the highly competitive retail environment.

August 24, 1976

Wilfred Posluns,
President.

Consolidated Statement of Earnings
(Unaudited)

		For the six months ended July 31, August 2, 1976 1975	
		(thousands of dollars)	
Sales			
Retail	\$ 94,245	\$75,380	
Fashion Manufacturing	12,713	11,802	
Less: Inter-group	(1,701)	(1,168)	
	\$105,257	86,014	
Earnings from operations	6,121	5,177	
Depreciation	1,159	1,009	
Interest	781	745	
Earnings before income taxes	4,181	3,423	
Provision for income taxes	2,007	1,677	
	2,174	1,746	
Income from investments	393	387	
Minority interest in subsidiary earnings	(590)	(394)	
Net earnings	\$ 1,977	\$ 1,739	
Earnings per share	\$ 0.34	\$ 0.30	

Changes in Consolidated Financial Position
(Unaudited)

		For the six months ended July 31, August 2, 1976 1975	
		(thousands of dollars)	
Source of funds:			
Operations	\$ 3,682	\$ 3,044	
	3,682	3,044	
Use of funds:			
Fixed assets	1,052	511	
Dividends	728	582	
Debt repayment including current position	30	2,141	
Other applications	36	28	
	1,846	3,262	
Increase (Decrease) in working capital	1,836	(218)	
Working capital at end of period	\$28,752	\$22,338	